99th Congress
1st Session

COMMITTEE PRINT

SPECIAL REPORT

ON

APPLYING UNITED STATES FOOD SURPLUSES TO THE PROBLEMS OF HUNGER

SELECT COMMITTEE ON HUNGER
U.S. HOUSE OF REPRESENTATIVES

MAY 1985

Printed for the use of the Select Committee on Hunger

U.S. GOVERNMENT PRINTING OFFICE
46-757 O WASHINGTON : 1985

H962-4

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To: Members of the Select Committee on Hunger
From: Mickey Leland, Chairman
May 6, 1985

I commend to your attention this Special Report on Applying United States Food Surpluses to the Problems of Hunger, prepared at the request of the Select Committee on Hunger by TCR Services, Inc. and Doggett and Associates.

The utilization of our Nation's vast surpluses is addressed and initiatives for more effective usage for hunger relief in the United States and abroad are explored.

This resource will prove valuable to the Committee in its work, and I extend my appreciation to the authors for their thorough examination of this vital issue.

Sincerely,

Mickey Leland
Chairman

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EXECUTIVE SUMMARY

Introduction

The problem of hunger persists throughout the world. At the same time, the United States continues to experience food surpluses. An obvious course of action would appear to be the application of those surpluses to meet the needs of hungry people. But the task is not as easy as it appears. The purpose of this report is to review for the Congress, the potential for applying U.S. surpluses to the problem of hunger and to identify both the best mechanisms for accomplishing that result and the limitations and constraints that inhibit the process.

Such a review is timely and appropriate. The existence of a number of Congressionally authorized programs designed to deal with hunger and malnutrition places the Congress in a special position to review such programs and consider options for change, in order to take greater advantage of the U.S. surplus supply situation. Such a review will be particularly timely in 1985, as the Congress deals with U.S. Farm Legislation. This report is intended to assist the Congress in that effort.

PART ONE of the study examines the world food supply situation as it exists today and uses available data to project needs. PART TWO reviews how U.S. surpluses can be applied to the international problem of hunger and PART

THREE examines existing U.S. domestic programs and their potential to use additional supplies of surplus foods to meet problems of hunger and malnutrition in the United States.

Highlights of the Report

-- The international food supply situation has improved somewhat over the past several years; however, increases in population and the needs of poorer, food-deficit countries, particularly in Africa, continue to make the potential for severe problems of hunger and malnutrition very real for millions of people.

-- The United States does produce more food than it consumes or exports. However, the "surplus" stocks that are actually available for distribution to the hungry, both in the United States and throughout the world, are limited to those commodities actually in Commodity Credit Corporation (CCC) inventories. Further, all commodities used in U.S. food assistance programs (both international and domestic), whether acquired from CCC stocks or from market sources, with the exception of Section 416 commodities, must be purchased with appropriated funds.

-- The cost of acquiring, maintaining, storing and moving surplus stocks within the United States is considerable. According to the Congressional Research Service, and based upon data from the United States Department of Agriculture, that total cost was $483 million in 1983 and is projected to total nearly $500 million for 1984.

As of October 1, 1984, CCC-owned inventories included over 2 billion pounds of dairy products, 71 million pounds of honey, 325 million bushels of wheat, 200 million bushels of corn, 90 million bushels of sorghum and 19 million hundredweights of rice. Other commodities in inventory may not be suitable, or readily adaptable to hunger programs.

-- The greatest area of opportunity to apply U.S. surpluses to the problem of hunger is in "food crisis" developing countries. The traditional mechanism used to do this is Public Law 480. However, surplus stocks are not "free" to P.L. 480 and appropriations are necessary to cover the cost of their use in the program. In addition, the program approval process used by the Executive Branch to apply P.L. 480 to the problem of hunger appears overly restrictive and may require Congressional attention.

-- The authority for the Food Security Wheat Reserve was recently used for famine relief in Africa. The Reserve is an excellent example of applying U.S. surpluses to the problem of hunger. However, authority to replace stocks in the Reserve expires September 30, 1985. Further, any release of stocks requires reimbursement to the Commodity Credit Corporation from appropriated funds.

-- The Section 416 donation authority for wheat and dairy products could provide the most flexible mechanism for donating U.S. surpluses in those commodities to the needs of the hungry. Such donations are directly from CCC stocks and do not require appropriations. However, a restrictive program approval process has limited application of 416 authority to the problem of hunger.

-- Due to the wide range of existing programs, new opportunities to quickly apply surpluses to domestic feeding programs are limited and in some cases, unnecessary. Programs such as the Special Supplemental Food Program for Women, Infants and Children (WIC) are designed to use surplus foods and offer the best potential for further applications of surpluses to problems of hunger and malnutrition. A special opportunity exists to reinstate the authority to use surplus commodities in the School Breakfast Program. That authority could assist considerably in strengthening the program's outreach to the poor and hungry.

Conclusion

The single, most important, limiting factor in applying U.S. surplus food to the problem of hunger is money. With the exception of Section 416 donations, all uses of surplus stocks, in both international and domestic programs, require appropriated funds. The range and diversity of existing programs currently authorized by the Congress to address the problem of hunger is considerable. Consequently, the challenge for the Congress, in the context of using U.S. surpluses to alleviate hunger, is to assure sufficient funding for those programs which offer the best potential for efficient and effective use of surplus stocks.

PART ONE

THE WORLD FOOD SITUATION - REQUIREMENTS, INTERNATIONAL SUPPLY CONDITIONS AND U.S. SURPLUSES

The vast array of data that exists on global food production, supply and demand conditions, stock levels, and world trade in agricultural commodities, is staggering. Statistics and information are available from a wide range of private and public sources, with the United States Department of Agriculture, the Food and Agriculture Organization of the United Nations and the World Bank among the most notable in the public arena. Using these, as well as other sources, a summary examination of international food requirements and supply conditions is essential to assessing the potential for the use of U.S. surpluses to alleviate hunger. Given the vastness of the data, the descriptions that follow are intended to be indicative of situations and potential -- factors that must be taken into account in such an assessment.

I. International Food Requirements

A. Production and Import Conditions

Since the early 1970's, global food production has grown steadily at an average annual growth rate of 2.3 percent. Much of this gain in production, however, has not increased per capita food availability because global population has grown along with production. In addition, there has been considerable country and regional variation in the record of

food production per capita. Overall, during the past 13 years, food production on a per capita basis has averaged an annual increase of only 0.4 percent, except in Sub-Sahara Africa, where per capita food production has been declining for two decades.

In the developing countries generally, growth of per capita food production has been stagnant since 1975 and has shown little improvement over the level of 1970. The average annual rate of population growth has matched that of food production, leading to almost no improvement in per capita food consumption among the developing countries.

USDA has determined that general import requirements needed to sustain existing levels of food availability (the status quo) in developing countries are 1 million tons greater in 1984/85 than in 1983/84. While the USDA estimate of 1984/85 food aid requirements is 11.7 million tons, this is based upon previous food aid import patterns and does not take into account the sizable emergency food aid requirements that have become evident in recent months.

For many of the food deficit countries, their poor financial situation is the cause of their inability to obtain their 1984/85 import requirements in commercial markets. With few exceptions, financial indicators for these countries worsened in 1983, including debt service payments, international reserves, the trade balance, the debt service ratio, and the ratio of reserves to imports. Cereals food aid from major donors for non-emergency programs is expected to remain at USDA's forecasts of food import requirements and aid needs for 1985/86 and reflect the expectation of continued financial problems.

B. Food Aid Requirements

USDA projections now indicate that previous estimates of emergency food needs understate the severity of the problem. Thirty-six countries are experiencing severe pressures on per capita food supplies due to inadequate growth in food production and an inability to finance adequate food imports. Ranked according to the severity of financial crisis, these countries are: Guinea, Lesotho, Gambia, Syria, Sierra Leone, Senegal, Yemen Arab Republic, Mali, Bangladesh, Central African Republic, Ivory Coast, Kenya, Zambia, Benin, Peru, Liberia, Botswana, Ethiopia, Madagascar, Morocco, Cameroon, Burma, Ghana, Tanzania, Togo, Chad, Mauritania, Haiti, Guinea-Bissau, Guatemala, Congo, Nepal, Niger, Uruguay, Zaire, Zimbabwe. Many of these countries are likely to require emergency food aid in coming years.

In Africa and the Caribbean Basin/Western South America regions, food calorie self-sufficiency will deteriorate in 75 percent of the countries. In the remaining South American countries and Asia, declining trends in food self-sufficiency are predicted to occur in slightly more than 50 percent of the countries.

In its 1979 publication, AGRICULTURE: TOWARD 2000, the FAO has estimated food aid requirements for 1990 for both a trend scenario and a normative scenario for 90 developing countries. These estimates under the two alternative assumptions provide a range for likely food aid requirements. Under the trend scenario, food aid requirements in cereals are estimated to reach 32 million tons by 1990. Of this total, about 26 million tons would be needed by the 57 most vulnerable countries.

While the exact projections made by USDA, FAO and the International Food Policy Research Institute (IFPRI) reflect some differences, these can generally be reconciled due to the different time periods for which projections are made and differing methods of calculations. In general, it is reasonable to assume that non-emergency food aid requirements could exceed 30 million tons by 1990. FAO estimates of emergency food aid for Sub-Sahara Africa, alone, in 1985, already exceed 5 million tons, according to early December 1984 estimates.

C. Food Crisis Conditions

While more than enough food has been produced to satisfy current food requirements, USDA has found that for a majority of food deficit countries, their very heavy international debt burden acts as a serious constraint to their ability to use foreign exchange for food imports. Countries with declining per capita food production as well as severe constraints on commercial food imports are facing a food crisis. A USDA study has defined a food crisis country as one in which:

- o Per capita food production is declining.
- o Consumption is below accepted nutritional standards.
- o International debt payment difficulties are significant.

Food crisis countries face enormous food import costs which they cannot currently finance and the debt holdings of these countries have increased almost sevenfold from 1974 to 1983 -- a more than 20 percent annual rate of increase over the

decade. Their current debt burden is staggering and the proportion of total goods and services exported by the food crisis countries required to service the debt is 29 percent. Nearly 30 percent of the food crisis countries, whose per capita incomes average approximately $500 per year, have debt burdens exceeding $400 per capita, while 50 percent have debt burdens exceeding $200 per capita.

These countries also have had a consistent pattern of current accounts deficits since 1974. During the 1980 peak indebtedness period, deficits were 60 percent of annual export value. Although these countries have reduced the level of trade through a reduction of both exports and imports, the deficits have not been narrowed significantly.

In the typical food crisis country during the mid-1960's, both per capita production and consumption were close to, but below, the recommended yearly intake level. By 1983, both had fallen to such an extent that consumption per capita was nearly 80 percent of recommended level and production was almost 60 percent of the nutritionally desired level. Even if a country on average, is at the recommended yearly intake level, at least 50 percent of the population is below the nutritionally desired level. When average consumption falls 20 percent below the recommended levels, then the clear majority of the population is below acceptable food consumption levels.

Nearly 80 percent of the food crisis countries are smaller African nations, the remainder in Latin America and Asia. Per capita income is below $500 for almost 60 percent of these countries and below $1000 for 75 percent. In some low-income African countries, a widening trade deficit in the 1970's was followed by what appears to have been a total collapse of the financial system in 1981-82. To date, these countries have shown no indication of recovery.

D. Debt and the Cost of Importing Food

Since 1978, the proportion of agricultural imports for low-income Africa has increased dramatically. By 1982, almost 30 percent of the imports to these countries was food. The ratio of food imports and debt service to total exports is nearly 60 percent, leaving few resources to satisfy all other import requirements.

USDA has predicted that for at least the next five years, the principal impediment to international trade will remain the debt problems of the developing countries. The 18 major U.S. agricultural trading partners account for more than 60 percent of the debt of the countries that have faced repayment problems since 1981. As a consequence, trade in all farm products in 1982 fell both in absolute dollar amount and as a percentage of total imports of the developing countries. Moreover, the U.S. market share of all agricultural exports to the developing countries fell from over 28 to 25.5 percent. Unless actions are taken to counteract the effect of developing country debt on trade, USDA anticipates U.S. agricultural shortfalls below trend of more than $7 billion -- a loss of approximately 20 percent of the potential export market.

II. International Supply Conditions

In view of the continuing needs of food-crisis countries and those, in general, that are food aid recipients, it is important to examine the international food supply situation. To a large extent, these countries will not be able to participate in commercial trade purchases of needed food and the relationships between food trade and the availability of food aid is important. Over the next ten years, non-U.S. output and use of major food and feed commodities are forecast to rise. As a consequence, total

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U.S. agricultural exports are likely to grow at only 3 percent a year -- a lower rate than during the past two decades. This trend has particular significance in the cases of wheat, rice, coarse grains and oilseeds, all of which are important food aid, as well as commercially traded commodities.

A. Wheat

Continued large wheat supplies by the major exporting countries, a slowdown in growth of foreign use, and no anticipated major world stock build-up programs (except in the USSR) are likely to result in an oversupply in wheat, continued slow growth in trade, and a weak pricing scenario. Non-U.S. production is forecast to increase about 2.5 percent per year through 1991/92 -- at about the same rate as in the past ten years. A continuing trend of the past two decades indicates that importers will become less self-sufficient, relying more on imports to supply a greater share of their consumption.

WHEAT - WORLD EXPORTS, 1983-1988
(In Million Metric Tons)

Country	1983-84 est.	1984-85 proj.	1987-88 proj.
Canada	21.5	21/22	20/22
Australia	11.0	11/12	10/12
Argentina	9.0	7.5	6/7
Western Europe	17.5	16.5	15/16
Eastern Europe/USSR	2.3	2.5	2.0
Other Non-U.S.	1.5	1.4	1.4
Total Non-U.S.	62.8	60.7	57/58
U.S.	38.1	42.4	52.5
Total	100.9	103.3	110.0

SOURCE: FEEDSTUFFS, May 21, 1984, p. 9.

WHEAT - WORLD SUPPLY AND USE
(In Million Metric Tons)

Year/Region	Production	Total Use	Net Exports
1979/80 - 1981/82			
Developed (less U.S.)	98.2	70.0	30.2
Developing	94.0	131.0	-37.2
Centrally Planned	179.5	216.6	-31.7
World (less U.S.)	371.7	417.6	-38.7
1991/92			
Developed (less U.S.)	125.5	74.4	49.8
Developing	131.0	192.4	-61.2
Centrally Planned	239.0	256.3	-17.8
World (less U.S.)	495.5	523.1	-29.2

SOURCE: Commodity Analysis Section, International Economics Division, Economic Research Service, USDA.

B. Rice

Foreign output of rice is expected to expand 1.9 percent annually through 1991/92. The increases will come largely from yield gains, especially in developing countries such as India, Bangladesh, and Indonesia. However, developing country consumption requirements will continue to exceed production and some of these same countries will also be food aid recipients.

RICE - WORLD SUPPLY AND USE
(In Million Metric Tons)

Year/Region	Production	Total Use	Net Exports
1979/80 - 1981/82			
Developed (less U.S.)	11.4	12.0	0.5
Developing	150.7	153.9	-2.1
Centrally planned	98.7	99.2	-0.5
World (less U.S.)	260.8	265.1	-2.1
1991/92			
Developed (less U.S.)	10.5	10.9	-0.4
Developing	199.2	201.2	-3.5
Centrally planned	116.9	117.4	-0.5
World (less U.S.)	326.6	330.5	-4.4

SOURCE: Commodity Analysis Section, International Economics Division, Economic Research Service, USDA.

C. Coarse Grains

Large yield increases are projected to boost non-U.S. production of coarse grains during the next ten years. Growth is forecast at 2.1 percent annually through 1992, as compared with 1.9 percent during the 1970's. Non-U.S. coarse grain production is projected to rise about 50 percent higher than in the previous decade. However, developing countries will continue to experience demand in excess of production, despite gains in yield and production.

COARSE GRAINS - WORLD EXPORTS, 1983-1988
(In Million Metric Tons)

Country	1983-84 est.	1984-85 proj.	1987-88 proj.
Canada	6.8	6.3	6.6
Australia	4.0	3.5	3.4
Argentina	12.7	11.2	10.8
Western Europe	3.8	5.0	4.8
Eastern Europe	2.8	2.8	2.7
South Africa	0.1	0.3	1.8
Thailand	3.2	3.2	3.2
Other Non-U.S.	3.1	4.0	4.3
Total Non-U.S.	36.6	36.3	37.6
U.S.	56.0	60.0	65.2
Total	92.6	96.3	102.8

SOURCE: FEEDSTUFFS, May 21, 1984, p. 81.

COARSE GRAINS - WORLD SUPPLY AND USE
(In Million Metric Tons)

Year/Region	Production	Total Use	Net Exports
1979/80 - 1981/82			
Developed (less U.S.)	132.8	157.7	-23.7
Developing	158.6	169.6	-12.1
Centrally Planned	222.8	253.5	-29.8
World (less U.S.)	514.2	580.9	-65.6
1991/92			
Developed (less U.S.)	159.4	188.5	-29.2
Developing	194.7	235.4	-40.1
Centrally Planned	293.6	318.86	-25.7
World (less U.S.)	647.6	742.7	-95.0

SOURCE: Commodity Analysis Section, International Economics Division, Economic Research Service, USDA.

D. Oilseeds

Growth in both the production and consumption of oilseed products is forecast for the next ten years. Exports from Brazil and Argentina, will likely expand during the next decade. However, a significant growth in foreign import demands, will continue to make the acquisition of oilseed products through food aid an important import mechanism for many poor, food-crisis, countries.

OILSEEDS - WORLD SUPPLY AND USE
(In Million Metric Tons)

Year/Region	Production	Total Use	Net Exports
1979/80 - 1981/82			
Developed (less U.S)	5,185	31,668	-26,483
Developing	25,219	16,408	8,811
Centrally Planned	12,132	19,806	- 7,674
World less (U.S.)	42,536	67,882	-25,346
1991/92			
Developed (less U.S.)	6,062	39,445	-33,383
Developing	38,900	31,232	7,668
Centrally Planned	18,595	29,157	-10,562
World (less U.S.)	63,557	99,834	-36,277

SOURCE: Commodity Analysis Section, International Economics Division, Economic Research Service, USDA.

E. Implications For Food Deficit Countries and Those with Chronic Hunger Conditions

For these four commodity areas (wheat, rice, coarse grains and oilseeds) the major implication for the provision of future food aid, as a component of the world food supply situation, is that ample quantities of food aid can be made available to countries that are in need. This assessment is, of course, based upon the fact that donor countries must assume the cost of such aid, as well as the responsibility for assuring careful administration of food aid programs.

III. United States Surpluses and Commodity Inventories

The U.S. government, through the Commodity Credit Corporation, maintains or has access to commodity stocks under farm loan programs, in farmer-held reserves, and directly in CCC-owned inventories. Commodities outstanding under loan programs and those in the farmer-held reserve are accessible to CCC only under certain release provisions and pricing procedures governing U.S. farm/commodity programs. As a result, the real "surplus" stocks immediately available to the United States for the alleviation of hunger, both at home and abroad, are those actually in the CCC-owned inventory. As of October 1, 1984, those stock levels were as follows:

CCC Commodity Inventory - October 1, 1984

Commodity (Million Units*)	Outstanding Under Loan	Farmer-Owned Reserve	CCC-Owned Inventory 1/
Butter (lb.)	-0-	-0-	255.3
Cheese (lb.)	-0-	-0-	767.6
Nonfat Dry Milk (lb.)	-0-	-0-	1,203.6
			2,226.5
Barley (bu.)	28.1	97.1	13.2
Corn (bu.)	30.3	430.4	201.2
Oats (bu.)	2.6	3.1	1.5
Rye (bu.)	7.6	-0-	3.9
Sorghum (bu.)	13.0	178.6	90.0
(cwt.)	(7.3)	(100.0)	(50.0)
Soybeans (bu.)	20.5	-0-	.8
Wheat (bu.)	270.9	660.9	325.2
Rice (cwt.)	3.1	-0-	19.8
Honey (lb.)	76.3	-0-	71.6
Upland Cotton (bale)	215,800	-0-	105,926
ELS Cotton (bale)	11,400	-0-	24,028
Tobacco (lb.)	1,068.6	-0-	-0-
Peanuts (lb.)	15.0	-0-	-0-

*Cotton in single units.

1/ The following quantities are included but committed to:
--Disaster Reserve - Barley 2.7, Corn 44.3, Sorghum 28.0
--Food Security Reserve - Wheat 147.0
--Dairy Sales and Donations - Butter 85.4, Cheese 121.0, Nonfat Dry Milk 150.0

The condition of these stocks is generally good. Grains in storage are rotated regularly and storage facilities for dairy products are more than adequate, in most cases. The value of the total CCC inventory as of June 30, 1984, was approximately $8 billion. The October 1982 value was about $5.1 billion. The amount that USDA actually might receive for selling these items presently would depend on a number of variables, including current loan rates, market conditions and the quality or grade of the surplus. Storage and handling costs for all surplus commodities in FY 1983 totaled about $483.589 million, up considerably from FY 1982, when the cost was $239.231 million. Part of the FY 1983 increase reflects payment-in-kind (PIK) related costs. USDA estimates that the final accounting of FY 1984 costs will be about $500 million.

PART TWO

APPLYING UNITED STATES FOOD SURPLUSES TO WORLD HUNGER AND MALNUTRITION

In addition to its major role as a commercial supplier of food in world trade activities, the United States also has two primary methods of utilizing U.S. surpluses abroad. These methods include direct food aid programs, which serve a variety of objectives, and selected marketing activities. In both areas, there are some options for the expanded use of surpluses to meet problems of hunger and malnutrition.

I. Food Assistance Programs

A. Public Law 480

The Food for Peace Program, authorized by the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) is the primary mechanism used by the United States to provide international food aid. Its various objectives include expanding international trade among the United States and friendly nations; providing emergency and disaster relief; disposing of surplus U.S. agricultural commodities; supporting economic development in developing nations; and promoting the foreign policy of the United States.

While emphasis on these objectives has varied over the years, the program has remained one of the major vehicles through which U.S. commodities are exported under

concessional and donated terms. As currently authorized, P.L. 480 provides for concessional sales of commodities (Title I), and direct donations (Title II).

All commodities exported under P.L. 480 must meet the requirements of Section 401 of the law. This Section requires the Secretary of Agriculture to determine that domestic supply requirements are met, that adequate carryover stocks exist; and that there is sufficient commodity availability for commercial export sales, before approving quantities for P.L. 480. The only exception to this process is for special, urgent, humanitarian needs.

Under Title I, the U.S. Government is authorized to provide concessional, long-term financing for the commercial sale of U.S. agricultural commodities to friendly nations. Loans are provided at minimum interest rates and are payable over a 10 to 40-year span. Initial payment of at least 5 percent of the purchase price is required and most agreements include a provision for up to 10 percent of the purchase price be repaid in local currency for use by the U.S. Government to cover its in-country expenses. Title II focuses on providing donations to countries to alleviate famine or provide disaster relief, combat malnutrition, and encourage economic and community development. Under Title II, commodities are purchased by the United States and donated under government-to-government agreements, through private voluntary agencies and international agencies. In addition, Title III of the Act contains provisions for the forgiveness of Title I loans under certain policy and developmental criteria.

Total P.L. 480 exports reached their peak in FY 1965 when over 18 million metric tons were exported. Over the next several years, the size of the program gradually declined

until 1974 when P.L. 480 exports dropped to less than 2 million tons. Since 1974, P.L. 480 has been increasing to the 1984 total of 6 million metric tons, valued at about $1.5 billion.

During the first decade and a half of the program, P.L. 480 exports made up more than 25 percent of U.S. agricultural exports. Since 1974, P.L. 480 has declined to less than 5 percent of U.S. agricultural exports. Approximately 90 percent of the commodities utilized in the P.L. 480 program have been grains; including wheat/wheat products, feed grains, and rice. The remaining 10 percent consists of vegetable oils, dairy products, blended foods, and other commodities such as cotton and tobacco. Occasionally non-traditional commodities in excess supply (not necessarily in CCC stocks) are included, usually in Title II donations. In recent years, such products have included potato flakes, raisins and various types of beans.

Of particular importance is the fact that the use of any commodity in P.L. 480, whether from CCC stocks or commercial market sources, requires appropriated funds; either to pay CCC expenses, or a price level for CCC stocks set by the Secretary of Agriculture, or commercial market costs incurred when purchasing a commodity. There are no "free" commodities in P.L. 480 -- in one way or another, they must be "purchased." However, the Secretary of Agriculture can reduce the amount of appropriated funds needed for such purchases by lowering the price level charged for CCC stocks.

While the initial use of P.L. 480 focused heavily on its surplus disposal capability, the 1966 legislation provided new emphasis on combating hunger and malnutrition. Non-surplus commodities which meet the requirements of

Section 401, became eligible for inclusion, and a major criterion for commodity selection, particularly in Title II, became the needs of malnourished populations.

Title II has become the primary vehicle in P.L. 480 both for the alleviation of hunger through targeted programs and for the use of CCC surplus stocks, where appropriate. (In Title I, receiving countries currently use their concessional loan funds to purchase commodities through commercial tenders and not from CCC stocks.)

Thus, P.L 480 programs are capable of using surplus commodities for the alleviation of hunger and malnutrition and to decrease U.S. government storage costs as long as sufficient appropriations exist. However, it is important to note that increased usage of surplus stocks in P.L. 480 programs are limited to those commodities accessible to the Commodity Credit Corporation (CCC), and in all likelihood, would be exported through Title II.

Consequently, the Title II donations program has been the only P.L. 480 authority used in recent years to supply surplus commodities. At present, the major surplus commodities used in Title II are dairy products (used directly or as a component in blended foods) and CCC grains, both of which are "paid for" from P.L. 480 appropriations. As noted above, special marketing and surplus conditions have also resulted in the use of Title II funds to purchase, periodically, commodities such as raisins, instantized potatoes, beans, and other "unusual" commodities. These commodities have not come from CCC stocks, but have been determined by the Secretary of Agriculture to be on the P.L. 480 "docket" -- i.e., eligible for purchase with P.L. 480 funds. Such "docket" determinations are usually the result

of high supply/low price conditions in the U.S. domestic market and tend to follow strong expressions of concern by affected trade interests and their Congressional representation.

With its 30-year history, P.L. 480 has and will continue to be the subject of a wide range of suggestions for modifications to achieve various objectives.* Recent legislative attention to increased appropriations for Africa and continuing attention by various interests to program effectiveness and management, are indicative of this fact. Further, its presence in the Farm Legislation assures attention to its provisions in 1985.

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*In this regard, see also a consultant report submitted to the Select Committee on recommendations for changes in P.L. 480.

Viewed only as a vehicle for applying U.S. surpluses to meeting the needs of those who are hungry and malnourished, P.L. 480 offers various options for Congressional consideration:

Option - Increase P.L. 480 Title II Programs Administered by American Voluntary Agencies and the World Food Program and Encourage the Use of U.S. Surplus Stocks and Products Made from Surplus Commodities for Hunger Programs

Pros:

American Voluntary Agencies and the United Nations World Food Program receive considerable support from the United States Government. WFP and the Voluntary Agencies are also directly involved in

many famine and hunger relief programs in addition to their regular project activities. Both have the potential to use additional surplus commodities either through Title II or Section 416. In order to assure continuity in programming and to encourage the use of U.S. products such as dairy products, fortified foods (some of which use surplus milk in their composition) and wheat and wheat products, an increase in these programs should be considered. With its significant potential for use of surplus products, WFP could be a major outlet and channel to other international organizations for the use of U.S. surplus commodities.

Cons:

In order to assure use of surplus stocks in these programs, any increase must be accompanied by increased appropriations and, in all likelihood, a corresponding increase in the P.L. 480 Title II minimum tonnage level prescribed by the Congress. In addition, attention must be devoted to the practical aspects of increasing programs -- i.e., transport costs, receiving country logistic capabilities, acceptability and suitability of commodities, and administrative costs and capacities. These are all continuing considerations in food aid activities and apply equally to increased use of surpluses to meet hunger.

Option - Use CCC Surplus Stocks in P.L. 480 Title I Programs for Severely Affected Food-Deficit Countries

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Pros:

As noted earlier, Title II has been the only legislative authority used in recent years for export of CCC-held surplus commodities. Authority exists to use such stocks in Title I, and very poor, food-deficit countries with severe hunger problems, could receive special financing arrangements for surplus stocks under Title I.

Cons:

Considerable care would have to be exercised to assure that use of surplus stocks in Title I would not act as a disincentive to local production or development activities. In addition, even limited uses of surplus stocks in Title I will require appropriations and possible changes in purchasing procedures.

Option - Recognize that P.L. 480 will Continue to be Viewed as an Outlet for Domestic Commodities Affected by Adverse Marketing Conditions and Plan Accordingly

Pros:

Title II of P.L. 480 has often been required to use commodities, in addition to surplus commodities actually in CCC inventories, due to low prices and high supply in the U.S. domestic market. These additions, which become commodity purchases under usual P.L. 480 procedures, can displace regularly ordered commodities and can be very disruptive to carefully planned programs, designed to address hunger and malnutrition with specific commodity mixes. Use of such commodities can also have a

limiting effect on drawdowns of usually held CCC surpluses, due to their unforeseen budgetary costs. In order to accommodate such situations and, at the same time, protect regularly planned Title II programs, the Congress could authorize a special appropriation to purchase such commodities in addition to existing P.L. 480 appropriated levels. This "docket" would be administered by the Secretary of Agriculture and used as an additional supply mechanism for Title II under prescribed procedures and criteria. Tonnage made available would be in addition to the 1.7 million tons minimum currently required by the Congress.

Cons:

Additional appropriation authority would be required to establish this supply mechanism and advance estimates of tonnage and funding requirements would be difficult.

B. The Food Security Wheat Reserve

The Food Security Wheat Reserve was established by Congress under the Food Security Wheat Reserve Act of 1980 (Title III of P.L. 96-494). This Act authorized 4 million metric tons of government-owned wheat to be set aside for emergency food needs in developing countries. The Congress passed the legislation with the intent that the program would complement P.L. 480.

The Reserve can be drawn upon if either of two situations occur: First, as stated in the Act, "stocks of wheat may be released by the President to provide, on a donation or sale basis, emergency food assistance to developing countries at any time that the domestic supply of wheat is so limited

that quantities of wheat cannot be made available for disposition under the P.L. 480 program, except for urgent humanitarian purposes". Second, up to 300,000 metric tons can be released from the reserve (as urgent humanitarian relief to a developing country or countries that experience a major disaster) in any one year without consideration of the domestic supply situation. This provision allows for the immediate release of food in situations where the emergency need was unanticipated and where normal P.L. 480 procedures, such as the need for a special Congressional appropriation, would otherwise preclude a quick response.

Any release of stocks requires that a reimbursement may be made to the CCC from funds appropriated in "subsequent years." While the authority for the Reserve is continuing, authority to replace stocks of wheat to maintain the Reserve expires September 30, 1985. The Reserve was authorized for the first time, in December 1984, for urgent humanitarian needs in Africa and 300,000 tons was made available.

Option - Assure Continued Use of Surplus Wheat and Wheat Products from the Wheat Reserve

Pros:

The Reserve is a unique demonstration of the ability to use surplus stocks to alleviate hunger. Its use for Africa famine relief and the conditions that were met to release 300,000 metric tons for that purpose, were clearly in line with the Congressional intent resulting in the establishment of the Reserve. The presence of the Reserve assures the continuing ability to use surplus wheat for the alleviation of hunger and Congressional reauthorization of the authority to replace stocks of wheat to maintain the Reserve will continue that assurance.

Cons:

Without Congressional action, authority to replace stocks will lapse. However, any replacement of stocks in the Reserve, once authorized, requires appropriations in "subsequent years." Consequently, reauthorization of the authority to replenish the Reserve has funding implications, both for the cost of the commodity and the expense of storing it.

C. Section 416

Section 416 of the Agricultural Act of 1949 provided for the domestic and international disposal of surplus U.S. farm commodities "in order to prevent the waste of commodities, whether in private stocks or acquired through price-support operations by the Commodity Credit Corporation."

Section 302 of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) revised Section 416. Some of the changes included allowing non-food commodities to be used in the program emphasizing barter as a disposal method, and authorizing CCC to pay transportation costs to the port of export for foreign distribution, as well as storage charges until the time of distribution. The ensuing years have brought other changes in Section 416, giving the program various points of focus. Authority for foreign donation of commodities was eliminated in 1966; however, the recently enacted P.L. 98-258, the Agricultural Programs Adjustment Act of 1984, gives Section 416 its present authority again to include surplus wheat, as well as dairy products, for foreign donation, sale or barter. The legislation states that the cost of commodities used in this program shall be supplementary to the domestic assistance level of the 416 program and will not reduce the

availability of these commodities for domestic feeding programs or agencies. In addition, P.L. 98-258 established a two-year pilot program for the overseas use of ultra high temperature processed fluid milk.

Section 416 has only been used to a limited degree in the international sector and it remains the most flexible authority under which surplus food can be granted to alleviate hunger. The program does not have all of the restrictions that apply to P.L. 480; it does not require appropriated funds, and the movement of surpluses to alleviate hunger could be more easily expedited through Section 416.

Option - Increase the Availability of Surplus Products Through Section 416 to Meet the Needs of Hungry People and Urge Greater Use of Existing Section 416 Authority

Pros:

Congress recently authorized the inclusion of wheat, in addition to dairy products, under Section 416. With the potential for increased stocks of other commodities, their inclusion in Section 416 for programs addressing the problems of hunger and malnutrition could be very useful. Congressional review of this possibility, particularly with a view towards future stock conditions, could also be very helpful.

In addition, greater use of current Section 416 authority may be the best existing mechanism for making direct donations of surplus dairy and wheat products to hungry people. Section 416 commodities can be donated directly from CCC stocks; transport

costs can be paid under the law; and no appropriation is required to reimburse CCC costs. Donations can be made to a variety of sponsors and can be targeted directly to hunger needs.

Cons:

The primary limitation to increased use of surplus dairy commodities under Section 416 is the current policy which discourages resale or "monetization" of the commodity by the recipient government or charitable agency. Concern about possible market displacement and control over the use of generated funds has brought about the development of this policy. As a consequence, major project proposals in which "monetization" is a feature, have not been approved. In most cases, the request for monetization is based upon the need to generate support funds for program costs, such as for transport, delivery and storage. Congressional review of this policy would be appropriate, in order to strengthen distribution systems to hunger victims. In the absence of such Congressional attention, movement of surplus dairy and wheat stocks to hunger victims will continue to be slow. Section 416 donations are a direct cost to the Commodity Credit Corporation. Any expanded use of current authority or increase of eligible commodities will increase those costs.

II. Marketing Activities

A. Direct Sales of Commodities from CCC Stocks for Charitable Purposes

In addition to the authorities existing under P.L. 480 and Section 416 for the export of U.S. surplus commodities, the

Commodity Credit Corporation is also authorized to make direct sales of stocks from inventory for charitable purposes abroad. Prior to the recent revisions of Section 416, this authority was used to sell dairy products to charitable organizations operating in countries such as Mexico and Poland as well as in other locations over the years. Such sales are negotiated on a case-by-case basis with commodity prices approved by the Secretary of Agriculture. Freight costs are borne by the purchasing entity and quantities are usually relatively small. With the revisions in Section 416, this authority, while still existing, has not been used. Nevertheless, it is available for the sale of surplus products at reduced prices in circumstances where P.L. 480 and Section 416 are not appropriate.

B. Subsidized Sales of CCC Stocks

As part of its authority to sell inventory commodities, the Commodity Credit Corporation has also negotiated sales agreements which have as their dual purpose, the reduction of U.S. stocks and the provision of food to those in need. While such sales are usually at reduced prices or involve a subsidy component to make the price attractive to the buyer, they are more market-oriented than a direct hunger relief or feeding program. The two most recent examples of the use of this authority are with Egypt. In the first instance, one million pounds of U.S. flour was sold to Egypt under "Payment in Kind" provisions. Under this arrangement, the U.S. supplier was paid the difference between the Egyptian buyer's cost and the full price of the flour, in surplus wheat from CCC inventories. In the second case, the CCC negotiated a sale of dairy products to Egypt in which the price was set at a low level and payable in Egyptian currency. Both of these examples could be replicated in other food-deficit countries and would represent a major

opportunity to use U.S. surpluses to address hunger and malnutrition and at the same time, reduce storage costs and assist in trade development.

C. Credit Programs

Currently, various credit authorities exist for the commercial export of U.S. agricultural products. The largest of these programs is the GSM-102 Credit Guarantee Program, under which the CCC guarantees purchaser financing of U.S. exports. In addition, the GSM-5 program provides a small amount of direct credit for such purchases and the two programs are used together as "Blended Credit". Authority also exists for the GSM-301 program which was established in 1980 and which allows the Secretary of Agriculture to enter into project agreements under which CCC may finance the sale of commodities for periods in excess of 3 but not more than 10 years. Local currencies generated from the import and sale of U.S. agricultural commodities in the recipient country are used to establish facilities to improve the handling, marketing, processing, storage or distribution of imported commodities. The GSM-301 authority has rarely been used.

None of the currently authorized credit programs utilize surplus CCC stocks due to their commercial orientation and their value as a direct marketing tool for the export of commercial agricultural products. To the extent that surplus commodities might be involved in credit programs, the GSM-301 authority seems most appropriate. However, as is the case with Title I of P.L. 480, caution would have to be exercised to assure that no local disincentives to production or economic development would occur.

III. Administrative Considerations

In the case of both food assistance programs and marketing activities, Congressional attention to the administrative mechanisms governing the use of surpluses in these programs for hunger relief is essential.

In P.L. 480, the interdepartmental procedures for program review and approval need to be streamlined, with lines of authority more clearly defined. Currently there are numerous conditions which each project must satisfy. With each annual authorization and appropriation, the conditions increase and are aggravated by cumbersome procedures. These regulations and procedures severely limit the flexibility that is so essential to make better use of surplus commodities and adapt assistance to specific situations.

With regard to Section 416, similar conditions exist and interdepartmental procedures on Section 416 already rival those for P.L. 480. Preoccupation with process at the expense of results, is clearly not the Congressional intent in these programs.

Option - Streamline and Reduce Regulations and Administrative Procedures Governing Programs Designed to Use Surpluses Through Congressional Review

Pros:

The 30-year history of P.L. 480 has resulted in an interagency program review and approval process, particularly in Title II, that causes serious delays, inefficiencies and in some cases, apparent unwarranted program reductions. In addition, this

process has now been applied to Section 416 donations. Detailed Congressional review of the process, with a view towards expressing Congressional intent about its necessary and unnecessary features, would assist considerably in making food available more promptly, to hungry people.

Cons:

Congressional review of administrative processes used to make food available to hungry people throughout the world, could result in legislation that may be more restrictive than existing requirements. Any Congressional review must carefully avoid this result.

PART THREE

USING SURPLUSES TO ADDRESS HUNGER AND MALNUTRITION WITHIN THE UNITED STATES

I. Introduction

The Congress has authorized the Department of Agriculture through its Food and Nutrition Service to provide substantial hunger relief and nutrition assistance through a wide array of programs. These activities include commodity distribution programs to assist the needy in the United States, including Indian reservations, Trust Territories, Guam, the Commonwealth of the Northern Marianas, the Virgin Islands and Puerto Rico.

In Fiscal Year 1983, 2.5 billion pounds of food valued at more than $2.1 billion were distributed through various programs to outlets including schools, charitable institutions, child care centers, elderly nutrition programs, soup kitchens, food banks, summer camps, Indian reservations and supplemental feeding programs. Of these amounts, 1.28 billion pounds valued at $1.5 billion, were surplus commodities used in various programs.

Given the scope of current Congressional authorization and the range and variety of these activities, new opportunities to apply surplus commodities to the problems of hunger and malnutrition tend to focus primarily in a few program areas.

II. Programs Using Surplus Commodities to Meet the Problem of Hunger

A. Temporary Emergency Food Assistance Program (TEFAP)

In December 1981, the President, through Executive Order, initiated a special cheese and butter distribution to assist in the reduction of surplus inventories in storage and thereby make them available to needy persons. In 1983, when TEFAP was enacted under P.L. 98-8 this special distribution was revised to include any commodities purchased under price support programs that exceed quantities necessary for domestic and foreign commitments. The law also provided funds to assist states in distribution activities. In September 1983, the Congress extended TEFAP through September 1985.

Through the Executive Order and TEFAP, USDA provided nearly 1.6 billion pounds of commodities to needy Americans from December 1981 to August 1984. These commodities are valued at over $2 billion dollars, including:

Commodity	Amount Distributed 12/81-8/84	Value
Cheese	973,960,195	$1,425,832,734
Butter	300,014,188	460,099,871
Nonfat Dry Milk	92,285,864	99,504,826
Honey	64,639,912	45,247,938
Flour	60,702,450	7,891,319
Cornmeal	49,989,700	7,498,455
Rice	18,451,488	3,874,812
TOTAL	1,560,044,797	$2,049,949,957

Commodities are distributed to families and institutions by many types of agencies including food banks, soup kitchens, senior citizen programs and community action programs, with

considerable latitude to the state in administering this effort. The scope of TEFAP is bounded by USDA's determination of the availability of commodities and by administrative judgments about the ability to deliver available items to needy individuals without adversely affecting the farmer to consumer food chain.

Due to the importance of dairy products in the TEFAP program, it is important to note that surplus dairy stocks are slightly down after increasing for three years, due to the fact that USDA net removals of dairy products under the price support program are down almost 50 percent in Calendar Year 1984 compared to 1983.

The income eligibility monitoring required by TEFAP should be evaluated, as TEFAP was funded to distribute surplus commodities through voluntary organizations with a minimum of regulations and bureaucratic involvement. However, concerns from Congress and the General Accounting Office that non-needy people were receiving free surplus commodities has lead to requirements that local community groups be held accountable for assuring recipient eligibility. In this regard, federal government acceptance of state and local self-verification procedures as allowed under the law, would resolve a troublesome administrative burden. Recipient agencies could be spot checked to be sure they were open and serving needy people but scrutinizing individual recipients would not be necessary. TEFAP is not a continuous commodity distribution program and relies heavily on local support. Excessive federally-imposed administrative requirements may do more to limit the program's access to the hungry, than to curb abuses.

B. The Special Supplemental Food Program for Women, Infants and Children (WIC)

1. Background

Prior to the establishment of the WIC Program and largely in response to growing evidence of poor nutrition and related health problems among low-income pregnant women and children, the USDA began, in 1969, what was later to become the Commodity Supplemental Food Program (CSFP). This program provided free, government-purchased commodities to low income, nutritionally at-risk pregnant women, new mothers, and children under age 6. The program was funded by annual appropriations and was eventually legislatively authorized under the Food and Agriculture Act of 1977. The CSFP continues to operate in 25 project areas; however, participation has declined since the inception and growth of federal cash assistance provided under the WIC Program.

2. Creation and Implementation of the WIC Program

In order to link food distribution more closely to health care, the WIC program was created in 1972 as a two-year program linking health care and food assistance to low income pregnant women, nursing mothers, infants and preschool children considered to be at health risk because of poor nutrition (P.L. 92-433). Authorized under Section 17 of the Child Nutrition Act, this program was to be operated in addition to two other smaller programs which had been operating to serve similar target groups. These were the food certificate program, which operated in five pilot areas and provided

vouchers to recipients that could be used only for milk, infant formula and cereal, and the commodity supplemental food program which operated in 125 local areas and provided a specialized package of USDA food commodities directly to recipients.

Under the WIC program, federal funding was provided in the form of cash grants to state health department or comparable health agencies, for distribution to local agencies operating WIC programs. Eligible recipients were pregnant and postpartum women, and infants (to age 1) and children (age 1 to 4) who were determined by competent professionals to be at nutritional risk because of inadequate nutrition and inadequate income. Participants received specified food items either directly by picking them up, or through home delivery, or via coupons or vouchers redeemable for specific items at local grocery stores.

3. Scope of the WIC Program

In FY 1983, there were 7,150 WIC clinics, operated by some 1,700 local agencies. All 50 States plus the District of Columbia, Puerto Rico, Guam and the Virgin Islands administer WIC Programs. In addition 31 Indian or tribal groups operate as administering agencies.

Income standards for participation are generally determined by state and local agencies; however, by law such standards may not exceed the income eligibility level set for reduced-price school lunches. U.S. Department of Agriculture regulations further specify that agencies may not set income standards that are less than 100 percent of the poverty guidelines.

Beneficiaries receive supplemental food, as specified by USDA regulations. This is provided either in the form of actual food items from USDA stocks or vouchers valid for purchases of specific food items in retail stores. The law requires that the WIC program provide foods containing protein, iron, calcium, vitamin A, and vitamin C. Among the items that may be included in the WIC package are milk, cheese, eggs, infant formula, cereals, and fruit or vegetable juices. USDA regulations specify tailored food packages that provide specified types and amounts of food appropriate for six categories of participants: (1) infants from birth through 3 months, (2) infants from 4-12 months, (3) women and children with special dietary needs, (4) children 1-5 years of age, (5) pregnant and nursing mothers, and (6) postpartum non-nursing mothers.

At the current time, 3 million women, infants and children are participating in the WIC program. Federal funding appropriated for the program in FY 1984 was $1.36 billion. The national average monthly food benefit per WIC recipient is approximately $31.26. Up to 20 percent of federal WIC funds are made available for administrative costs which include costs of certifying nutritional eligibility, food delivery, and warehousing, monitoring, nutritional education, clinic operations, and administration by the state agency. In FY 1984, national average administrative costs, per recipients, were $7.82 per month.

4. <u>WIC Program Usage of Additional Surplus Commodities to Combat Hunger</u>

Current authorizations and administrative procedures provide for the use of CCC inventory stocks, particularly dairy products, in the WIC program. The program emphasis on a "package" approach to the provision of supplemental foods allows for the use of a combination of purchased and surplus commodities, where administratively feasible. As a result, the WIC program has potential for increased use of surplus products in feeding activities directed at those in need. However, the limitations that are inherent in commodity distribution programs must be taken into account in order to realize this potential. Location of commodities, access to them in an efficient manner, stock management considerations, administrative and transport requirements, the conditions that are placed on certain commodities (e.g., milk must be in liquid, not dry form), all contribute to a formidable management task. Nevertheless, the existence of program authorities and surplus stocks combine to make the WIC program a major vehicle for channeling surplus and other foods to those in need.

C. School Lunch and Child Nutrition Programs

The National School Lunch Act and the Child Nutrition Act of 1966 authorize food service programs such as National School Lunch, Summer Food Service and Child Care Food Programs. Assistance is provided in the form of both cash and commodities. Additional cash assistance is provided for each reduced price and free lunch served to students who are eligible under family size and income guidelines.

In 1935, when the federal government began its food support for school feeding programs, this support was available in

the form of surplus commodities. Today almost 80 percent of federal food aid for the child nutrition programs is provided in the form of cash to the states, transferring the major responsibility for food purchase and distribution to State and local agencies operating the program. The federal cash assistance has created a significant market for agricultural products while at the same time, reducing the uncertainty associated with the availability of surplus agricultural products. As far back as 1943, Congress sought to offset the negative effects of reduced or inappropriate agricultural surpluses on school programs by authorizing specific amounts of Section 32 to be used for direct federal purchase and distribution of commodities or for cash assistance for state or local purchase of commodities without regard to whether or not such commodities were in surplus.

The National School Lunch Act, enacted in 1946, currently includes a guaranteed level of commodity assistance required for each lunch and child care meal served. In the 1984-85 school year, it is 12 cents per school lunch.

Program costs for the Child Nutrition Programs in FY 1984 were estimated to be $3.9 billion. Commodity entitlements represent $464 million of this amount. Schools also received an additional $412 million in surplus commodities which did not count against their commodity entitlement. Every school day, the National School Lunch Program provides free meals to 10 million children and partial support for meals served to another 13 million school children.

One possibility in terms of using additional commodities to meet the needs of hungry and malnourished children would be an increase over the $412 million in surplus commodities currently used in the program. Such an increase would

require Congressional review of its impact on alleviating hunger as well as associated costs and administrative requirements.

D. The School Breakfast Program

1. Program Description

The school breakfast program provides federal funds to assist in providing breakfasts to children in schools and residential child care institutions. The program must operate on a nonprofit basis, and provide breakfasts which meet nutritional criteria set by the Secretary of Agriculture. Federal funding for the program is provided to states (usually state educational agencies) according to a legislatively mandated reimbursement (or subsidy) rate for each breakfast served. The amount of the reimbursement rate varies according to the family income of the participating child and is annually adjusted each July 1 to reflect the increase in the Consumer Price Index (CPI) series for food away from home. Additionally, higher reimbursements are available to certain schools that are determined to be in "severe need".

Free breakfasts are available to children from families with incomes at or below 130 percent of the Office of Management and Budget (OMB) poverty level and are currently subsidized at a rate of 69 cents (regular) or 72.25 cents (severe need) per breakfast. Reduced price breakfasts are available to children from families with incomes between 130 percent and 185 percent of the OMB poverty level and are subsidized at a rate no lower than 30 cents less than the free rate (currently between

30 cents or 42.25 cents per breakfast). Approximately 85 percent of the children participating in the breakfast program received free breakfasts. In 1983, approximately 3.8 million children participated in the program. The 1984 estimate is 3.5 million children. Program funding levels for 1983 were $345.4 million and are estimated to be $370 million in 1984.

2. Potential for Use of Surplus Commodities

In 1980, the provisions in the Omnibus Reconciliation Act of 1980 (P.L. 96-499) prohibited the Secretary of Agriculture from donating surplus commodities to the breakfast program. Further, the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) significantly reduced paid and reduced price breakfast reimbursement rates beginning September 1, 1981, and changed income eligibility criteria for free or reduced price breakfasts. These changes have limited expansion of the program and those most susceptible to problems of hunger and malnutrition usually are in the "free" or "reduced price" categories. Reinstatement of the authority to donate surplus commodities to the program would allow greater flexibility in reaching those most in need, and generally, increase program resources.

B. The Elderly Feeding Program

This program provides commodities or cash-in-lieu of commodities to congregate meals funded under Titles III and VI of the Older Americans Act of 1965. Anyone 60 years of age or older and their spouses can participate where there

is a program. USDA provides commodities or cash to states at a programmed level of assistance of 56.25 cents for each meal served, up to the appropriations ceiling of $127.7 million, excluding surplus commodities.

During 1984, approximately 212 million meals were served. Federal support consisted of $121 million in cash and $6.7 million in surplus commodities.

This program meets a special need among elderly people who may suffer from problems of hunger and malnutrition. It already utilizes surplus commodities and could be expanded and broadened in scope, with additional appropriations, to further meet this special need.

F. Commodity Supplemental Food Program for the Elderly (Pilot)

Under this Program, low income persons 60 years of age or older and their spouses receive monthly food packages (similar to the Commodity Supplemental Food Program) designed to supplement their diet. Special emphasis has been placed on serving the home-bound elderly and persons not participating in other federal food programs.

With three communities operating these pilot projects, food purchases in FY 1984 were $1.7 million excluding $1.8 million in surplus commodities.

G. Commodities in Lieu of Food Stamps for Needy Families

1. Indian Distribution Program on Indian Reservations

Participants in this program are low income households living on or near Indian reservations where inaccessibility to grocery stores makes direct distribution of commodities preferable to the Food Stamp Program. (Recipients have the option to choose this program or food stamps.) However, unlike the Food Stamp Program, the benefit amount does not vary according to income levels. The volume of the food package is determined by family size.

The program provides 12,000 participants with a monthly food package valued at $45.00 per person per month in FY 1984. The federal cost of food for the program was $31.6 million excluding $10.3 million in surplus commodities.

2. Needy Families Living in Trust Territories

Under this program, commodity food packages are provided to needy families in the Trust Territories. The average monthly cost per person of a food package in FY 1984 was $46.00 and an estimated 2,000 participants were served. Total estimated food cost was $1.1 million excluding $100,000 in surplus commodities.

H. Summer Camps and Charitable Institutions

Through these programs, commodities are provided to summer camps and nonprofit institutions, such as homes for the elderly, hospitals, soup kitchens, meals-on-wheels programs, and orphanages. Although this program does not have an appropriation, Congress provides funding by reimbursing USDA for the costs incurred in providing commodities. This approach may have applicability in other situations where the intent is to directly reach hungry people.

In FY 1984, a total of $2.1 million in purchased commodities and $4.3 million in surplus commodities were donated to both programs.

I. Emergency Feeding Assistance Program

Commodities are provided to aid congregate, large scale feeding of disaster victims and to provide food for home consumption during temporary emergency situations caused by natural or other disasters. In FY 1984, the total value of commodities provided for disaster relief is estimated to be $1.1 billion including surplus commodities.

J. National Commodity Processing System (NCP)

The NCP is a pilot program authorized under the Temporary Emergency Food Distribution Act of 1983, in which the USDA enters directly into processing agreements with food processors to convert surplus dairy products and honey into various end products desired by recipient agencies. The products are sold under a lower price or rebate system to reflect the value of the donated commodities contained in them.

The NCP was authorized for two years, ending June 30, 1985, to determine whether a national program could increase the use of surplus dairy commodities by supplementing state processing systems. To the extent that the NCP program assists in utilizing surplus commodities in direct feeding activities, it could have a beneficial effect on efforts to alleviate hunger and malnutrition. The Department of Agriculture is conducting an evaluation of NCP to access its effectiveness with results due in the summer of 1985.

III. The Food Stamp Program

The Food Stamp Program does not provide for the direct distribution of surplus commodities. However, with a Fiscal Year 1984 cost of nearly $11.7 billion is the Nation's primary food assistance program. First begun in 1964, the current law authorizes the Food Stamp Program to "permit low-income households to obtain a more nutritious diet through normal channels of trade by increasing food purchasing power for eligible households who apply for participation". Benefits are federally financed and most state administrative expenses are matched at the rate of 50 percent. Today the program reaches 21 million people, at a monthly cost of about $1 billion. Major features of the Program include:

1. Targeting of Benefits

   The Food Stamp Program is well designed to provide benefit amounts that vary with income to the needy. Those with the least income receive the highest benefits.

   The Program is intended to provide quick response to people in need of food assistance.

   Recipients are given a wide choice of when and where to purchase food, what to eat and how to prepare it.

2. Administrative Feasibility

   Combined State and Federal Administrative costs are less than 13 percent of the benefits provided. The use of the commercial food marketing system simplifies program administration and helps to keep costs low.

3. Participation

USDA estimates 61 percent of eligible households participate in the Program. One barrier to participation seems to be the lack of program information, as non-participants believe that they are not eligible for the program, or may be reluctant to participate in a "welfare" program.

While the Food Stamp Program does not distribute surplus commodities, it does offer people in need a wide variety of nutritious food choices in order to permit low income households to obtain a nutritious diet and thus decrease malnutrition. Further, it increases the demand for agricultural products by allowing the needy to purchase additional food with the increase in household income from food coupons.

Further, Food Stamp recipients are not precluded from receiving surplus commodities. Originally, the Food Stamp Act prevented surplus commodity distribution where the Food Stamp Program was in operation. However, Section 1114 of the Agriculture and Food Act of 1981, which expires in 1985, overrides the Food Stamp Act to permit distribution of surplus foods to needy families. As a result, the potential exists under current authorizations, to increase the use and distribution of surplus products in conjunction with the Food Stamp Program in order to help the hungry and malnourished. However, in order to realize this potential, several considerations are necessary. These include selection of program authorities based upon need and location, methods of distribution to be used; (i.e., retail outlets or others?) quantities to be supplied, criteria for selecting recipients, accounting systems that would be necessary and other administrative and cost factors.

APPENDIX I

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APPENDIX II

DESCRIPTION OF PUBLIC LAW 480

Titles Under P.L. 480

Public Law 480 consists of four Titles. Title I authorizes concessional sales of commodities to friendly developing countries. Title II authorizes the donation of food commodities to needy people through U.S. or foreign private voluntary agencies, bilateral programs, and multilateral agencies such as the World Food Program (WFP). Most U.S. emergency food aid is also provided under this Title. Title III authorizes multi-year Food for Development programs which provide for forgiveness of debt incurred under Title I agreements. Title IV contains miscellaneous administrative and reporting requirements. (Due to their similarity, Title III follows Title I in the description that follows.)

Title I

Title I of P.L. 480 authorizes concessional credits on an annual basis for sales of U.S. farm products to developing countries. These credits are repayable in dollars (at concessional interest rates not less than 2 percent during the grace period and 3 percent thereafter) over a period of 20-40 years with a grace period on principal repayment of up to 10 years. In addition, most agreements require an initial cash down payment of 5 percent. Recipient countries must agree to undertake self-help measures aimed,

where appropriate, at expanding food production and improving food storage and distribution facilities. The program is designed to augment the aggregate supply of food within the country and to be marketed through existing commercial channels.

The local currencies generated from Title I sales are available for use by the recipient government. Local currency proceeds are available for general budget support by the recipient country government. In countries facing severe budgetary constraints and reductions in their development budget and programs, the budget support provided by the Title I local currency proceeds can make a significant contribution to economic development. Local currency resources also support a variety of specific development programs such as increasing the availability of farm credits, stabilizing price fluctuations of agricultural commodities, improving on-farm storage and distribution facilities or expanding irrigation systems. Wherever possible, efforts are made to use these self-help and local currency generations to complement activities financed with other donor sources.

A major concern in Title I is that concessional sales of U.S. farm products do not disrupt U.S. commercial sales or those from other friendly countries. The P.L. 480 legislation requires that Title I and III agreements establish Usual Marketing Requirements (UMR) based on the average level of commercial imports for the same commodities during the previous five years. The recipient country explicitly agrees to purchase commercially the level of commodities specified in the UMR with P.L. 480 assistance "additional" to that base.

Current cargo preference rules (Merchant Marine Act of 1936) require that at least 50 percent of P.L. 480 cargo

move on U.S. flag ships. This cargo preference results in U.S. government (CCC) payment of freight differential costs to U.S. shippers for Title I and III shipments.

Title III

Title III (Food for Development) programs are similar to Title I programs in many respects, including the same components which can contribute to the development effort, i.e., local sales proceeds, self-help measures, and balance of payments support. Title III programs do, however, differ in some critical aspects from Title I. Title III programs are designed with economic development as the primary objective. They are designed specifically to support agricultural and rural development programs in the recipient country, through required policy initiatives, institutional reform, and support for specific development projects. In addition, they provide for loan forgiveness if the recipient country implements the development program specified in the Title III agreement. Title III programs provide multi-year commitments of up to five years. Development programs supported by Title III are required to complement and be an addition to other programs being supported either bilaterally or multilaterally.

Public Law 480 requires that 15 percent of Title I financing be allocated annually in support of Title III programs. Further, at least 75 percent of the volume of Title I food aid must be allocated initially to countries with annual per capita incomes at or below the poverty criterion of the International Development Association. Eligibility for Food for Development (Title III) programs is limited entirely to this group of countries.

Title II

Under this authority, the United States, donates food principally for humanitarian purposes such as emergency/disaster relief and programs to help needy people -- particularly malnourished children and adults on works projects -- through programs designed to alleviate the cause of the need for food assistance.

Section 201 of Title II provides that each year a minimum of 1.7 million metric tons shall be distributed under this Title. Of this minimum tonnage, at least 1.2 million metric tons must be distributed through nonemergency programs of nonprofit voluntary agencies and the World Food Program (WFP). These programs largely support maternal child health projects, (MCH), school feeding programs (SFPs) and food for work (FFW) activities.

The unprogrammed reserve, a minimum of 500,000 tons, allows the United States not only to respond to emergency requests, but also, to supplement regular programs. These emergency donations are currently channeled through U.S. voluntary agencies as well as through the World Food Program and in some cases bilateral government-to-government programs. Currently, program resources for Section 206 of Title II, are also taken from this unallocated reserve.

In accordance with Section 203 of Title II, the costs of ocean freight to designated points of entry (including cargo preference) and overland transport to landlocked countries and other costs for packaging, enrichment, preservation, fortification, processing and handling, are covered by the program.

Traditionally, Title II has been viewed primarily as a humanitarian program concerned with the immediate need to alleviate hunger and malnutrition. In recent years, however, the developmental benefits of Title II programs have been emphasized, and the program is undergoing a fundamental redirection in an effort to enhance its developmental role. Title II feeding and development programs include:

1. Maternal-Child Health Feeding Programs (MCH)

These programs offer food supplements to pregnant and nursing mothers and preschool children from low-income families. The programs are typically implemented at feeding or health centers managed by indigenous or U.S. organizations. Feeding rations are distributed to mothers and infants and rudimentary lessons in health or nutrition are provided. In the better run centers, a growth surveillance system is used to ensure adequate levels of intake and to monitor impact.

MCH programs are most effective when attention is given to 1) targeting the program at malnourished children and the nutritionally at risk mothers; 2) the appropriate quantity and type of ration; 3) integration of the feeding program with health services; 4) the inclusion of a nutrition component; and 5) beneficiary participation.

The contribution of MCH to development is primarily through human capital formation resulting from nutritional awareness and better practices, and an increase in access to health services. Given the nutritional emphasis of these programs, recent evaluations have focused on their nutritional impact.

Though methodological difficulties hamper nutritional evaluation, positive nutritional contributions were found to have occurred in MCH programs in a number of countries.

2. School Feeding Programs (SFP's)

These programs provide meals to school age children who are physically present at educational institutions and are generally managed by indigenous or U.S. voluntary agencies. School feeding programs are intended to contribute to development through human capital formation and increased productivity. They are also designed to improve the nutritional status of school-age children, and to enhance school enrollment and attendance.

3. Food For Work (FFW) Projects

These activities contribute to development through income generation and employment for the poor, particularly women with few if any alternative sources of employment. These projects also provide infrastructure development by construction of roads, wells, irrigation facilities, etc., and promotion of community organization and development.

4. Title II Outreach

The Worldwide Title II Outreach Project, first approved in 1978 has been extended to FY 1986 utilizing AID, not P.L. 480, funds. The objective of the Outreach Project is to increase compliance with a Congressional mandate and AID's own policy directive that more emphasis be placed upon assuring that Title II food aid reach the truly needy in recipient countries, rather than being limited to the often less poor areas and population

groups that were easiest and hence, less costly to serve. Since many Title II sponsors lacked the additional resources necessary to accomplish this, the Outreach Project was designed to meet specific, short-term transportation, storage, distribution and administration costs of these programs. Up to 20 percent of the funding under each grant can be used for "enrichment" items (nonlogistic support costs) such as scales, charts, small tools and equipment, educational materials, training, and vitamin and mineral supplements.

5. Section 206 of Title II

The Section 206 authority is one other program vehicle by which P.L. 480 resources can be employed for development purposes. This authority provides for government-to-government nonemergency donations with the Title II commodities to be sold on the local market, provided the generated local currencies are used for (a) alleviating the causes of the need for assistance and (b) programs and projects to increase the effectiveness of food distribution and increase the availability of food commodities provided to the neediest individuals in the recipient country. As part of the program, the recipient country government agrees to undertake self-help measures and specifies the uses for which the local sales proceeds will be applied.

6. Supporting the World Food Program (WFP) Through Title II

The World Food Program, an activity of the United Nations and the Food and Agriculture Organization (FAO), was established in 1962, with active encouragement from the United States. The governing body of the WFP is the Committee on Food Aid Policies

and Programs (CFA) whose 30 member states are chosen with a view towards balancing economically developed and developing countries. The United States is a permanent member of the CFA.

The Secretariat of the WFP is housed in Rome and is responsible for program planning, operations, and evaluation. To the extent possible, the WFP relies on the existing staff and facilities of the FAO, the United Nations, its specialized agencies, and other intergovernmental agencies, as appropriate. In general, recipient governments define and make requests for assistance and are responsible for project execution.

WFP resources are obtained through voluntary biannual pledges from its membership. Initially, the United States contributed 50 percent of WFP's resources. Now the biannual pledge by the United States totals approximately 20-25 percent. The U.S. pledge is financed under Title II and Section 416 and currently totals $250 million for the 1985/86 pledging period.

The World Food Program is increasingly involved in the difficult task of coordinating emergency shipments by the United States and other donors, particularly those in response to international appeals by the United Nations and the Food and Agriculture Organization.

As part of this growing role, the WFP manages a separate emergency account, the International Emergency Food Reserve (IEFR) which is made up of voluntary contributions from donor countries. These are separate from the biannual pledges which make up the general WFP budget. The U.S. government is committed to providing

25 percent of the IEFR (125,000 MT) and has exceeded that amount regularly. This contribution comes from the P.L. 480 Title II emergency reserve.

Title IV

Title IV of the Act covers the general provisions of the P.L. 480 program. Among those provisions is the requirement that the Secretary of Agriculture shall determine commodity availability for shipment under the P.L. 480 program. All such P.L. 480 commodities must be determined to be excess to domestic requirements, including stocks, and anticipated exports for dollars, unless the Secretary determines that some part of the commodities should be used to carry out urgent humanitarian purposes of the Act.

No agricultural commodities may be financed or otherwise made available under the Act except on the determination by the Secretary of Agriculture (often referred to as the Bellmon determination) that (1) adequate storage facilities are available in the recipient country at the time of exportation of the commodity, and (2) the distribution of the commodity in the recipient country will not result in a substantial disincentive or interfere with domestic production or marketing in that country.

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